Statement Of
Mr. Doug Peterson, President, Minnesota Farmers Union
On behalf of the
National Farmers Union
Before the
House Agriculture Committee
October 16, 2003, Washington, D.C.

Chairman Goodlatte, Ranking Member Stenholm, and Members of the House Agriculture Committee, my name is Doug Peterson and I am the President of the Minnesota Farmers Union. It is a pleasure to appear before you today on behalf of the 300,000 family farmer and rancher members of the National Farmers Union to discuss the role of farmer-owned cooperatives in contributing to the financial success of agricultural producers and improving the economic prospects for our rural communities.

The National Farmers Union (NFU) has a long history in the development, operation and support of farmer-owned cooperatives. Our involvement in cooperatives even pre-dates the Capper-Volstead Act which enabled and encouraged the formation of agricultural cooperatives over 80 years ago and was the basis for the enactment of other public policies to further the objectives and provide special treatment for this unique business structure. Our commitment to successful cooperative development continues today through a variety of support activities carried out by both the NFU and our affiliated state organizations.

Historically, cooperatives were established to deal with four primary needs of production agriculture. They provided a mechanism to address two types of market failure that have existed in rural America throughout our history – providing a broad range of locally available services to production agriculture that were not being made available by the private sector and fostering market competition within the input, processing and merchandising sectors to reduce the concentration of market power among a limited number of agribusiness companies. Cooperatives also allowed farmers to participate in both the governance and earnings of the other agricultural sectors with which they do business. Finally, cooperatives contributed directly to the functioning of local economies by creating new jobs and added rural business activities and services. We believe the vital role cooperatives can play in meeting these needs is even more important today than it was throughout the last century.

No one questions that times have changed in agriculture. And I think we all can agree that the strategies employed in the public/private partnership that have fostered the development of agricultural cooperatives should be reviewed and modified to reflect current conditions and future business expectations. Congress must take the lead in this reexamination process rather than allowing events or other institutions to define a new cooperative model that may in fact sacrifice the characteristics of cooperatives that distinguish it from other business structures. We know that there are problems that continue to challenge the system, however, we also believe that a level of restraint must be exercised to provide the opportunity for a full discussion of potential alternatives and outcomes before engaging in a significant modification of the cooperative model.

Specifically, the largest single challenge facing existing or proposed cooperative business ventures is access to equity capital. For established co-ops, new infusions of capital are critical to enhancing their capacity to adapt to and compete in a global setting where market power is becoming increasingly concentrated and integrated through mergers, acquisitions and strategic business alliances.

In the case of start-up cooperatives, access to additional sources of equity is equally important if these new generation cooperatives are to have a reasonable chance of filling the existing void in local and regional market structures in a way that allows their member patrons the opportunity to participate in value-added opportunities and receive the benefits of enhanced market transparency and competition.

The 2002 farm bill authorized programs and appropriations to provide grants and loans to facilitate the development of new rural business ventures, including cooperatives, and also maintains a mechanism to provide access to loan guarantees in order to facilitate the purchase of participation shares in cooperatives by individuals. In addition, the farm bill created the Rural Business Investment Program (RBIP). The RBIP is designed to encourage venture capital investments in rural enterprises through rural business investment companies that are created to raise capital, provide operational assistance to smaller businesses and participate in a government guaranteed debenture program. The program also ensures that ownership of the rural business investment company is not affiliated with the company's management. We encourage this committee to impress upon USDA the importance of expediting the implementation of this program.

In our judgment, the RBIP, when coupled with other cooperative development programs, offers an important opportunity for smaller rural cooperatives to access the resources that are vital to their success. We also believe, however, that Congress should review the technical requirements of the enabling legislation to determine if they are too restrictive in terms of the net worth of the participating enterprise, limitations on participation by financial institutions and the capital requirements for participation in the guaranteed debenture program.

In addition, we encourage the committee to consider ways to streamline the whole cooperative development process. In particular, we believe that shifting some of the lending authorities, such as the various guaranteed loan programs, to the Farm Service Agency, which has substantial agricultural credit experience, would further encourage farmer participation in new or existing cooperatives and expedite the cooperative development process.

Numerous proposals have been suggested, and in some cases state governments have already acted, in an attempt to enhance the ability of cooperatives to attract outside capital. While we appreciate the worthy intentions of these efforts to address the equity shortfall experienced by many cooperatives, we are concerned about the longer term effects of these proposals on the basic cooperative principles. These include producer ownership and governance of coops and the ability of cooperative ventures to provide alternative market opportunities and enhance market competition. In addition, schemes that blur the lines between cooperatives and other organizational structures may put at risk existing preferential public policy treatment for all cooperatives, including but not limited to the issues of the partial anti-trust exemption and tax considerations.

Because these proposals may have a substantial impact on the application of numerous federal laws, Congress must "get in front" of the issue rather than simply react to the actions taken by others.

We are concerned that new state laws, including one recently adopted in my state of Minnesota, as well as many other suggestions to encourage equity investment in cooperatives could effectively, if not technically, eliminate the ownership, control and allocation of patronage earnings to "real" producers. The old adage, "he who pays the piper calls the tune" could certainly apply to outside investors, who may in fact be able to qualify as farmers under the current definition. Non-farmer investors may be able to control or influence a majority of cooperative board votes to change the traditional allocation of earnings away from patronage to a return on investment. They may also exert substantial influence on merger, consolidation, liquidation or other critical business decisions. In effect, the cooperative, by accepting access to outside capital, may become nothing more than a regular stock company except that the farmer patrons will have collectively contributed substantial risk capital for a venture that may not be serving their own self interest.

Congress should review the definition of farmer as it applies to cooperative ownership and governance. Furthermore, if, after a thorough assessment, Congress determines that the benefits of encouraging the type of outside capital investment envisioned by these proposals outweighs and is not inconsistent with cooperative principles and existing statutes, it should establish strict guidelines and limitations on the level of influence these investors may exert over any cooperative business structure. At a minimum, these rules should require diversification among investors, particularly those with interests in competing businesses, ensure an adequate majority of voting power is retained by the farmer-owners and mandate an equitable sharing of any earnings distribution among outside investors and those who would be entitled to patronage allocations by the company.

Mr. Chairman, we believe the partnership between agricultural producers and the federal government to ensure the success of new and existing cooperatives can resolve the issues we have discussed today. We look forward to working with you and your House and Senate colleagues in an expedited, but well considered process that addresses these challenges without destroying the farmer-owned cooperative system.

I will be glad to respond to any questions you or Members of the committee may have.